

**Financial Statements**  
**Lakeshore Coordinating Council**  
**September 30, 2004**



# Auditing Procedures Report

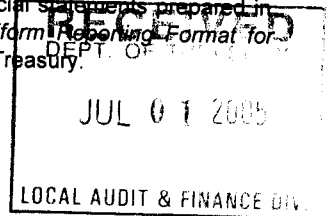
Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Lakeshore Coordinating Council</b>	County
Audit Date <b>9/30/04</b>	Opinion Date <b>3/9/05</b>	Date Accountant Report Submitted to State: <b>6/30/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.



We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name)

**ROSLUND, PRESTAGE AND COMPANY, PC**

Street Address

**308 GRATIOT AVENUE**

City

**ALMA**

State

**MI**

ZIP

**48801**

Accountant Signature

*Roslund, Prestage & Company PC.*

Date

**6/30/05**

Lakeshore Coordinating Council  
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September 30, 2004

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## INDEPENDENT AUDITOR'S REPORT

Lakeshore Coordinating Council  
Grand Haven, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lakeshore Coordinating Council (the Council), as of and for the year ended September 30, 2004, which collectively comprise the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Council as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 9, 2005 on our consideration of the Council's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages I-IV, and budgetary comparison information on page 24, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the other supplemental financial information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Council. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Roslund, Prestage & Company, P.C.*  
Roslund, Prestage & Company, P.C.  
Certified Public Accountants

March 9, 2005

**MANAGEMENT DISCUSSION  
AND ANALYSIS**

**Lakeshore Coordinating Council**  
**Financial Statements for the Fiscal Year Ended September 30, 2004**  
**Management's Discussion and Analysis**

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The Lakeshore Coordinating Council (LCC) is a substance abuse coordinating agency (CA) designated by the Michigan Department of Community Health (MDCH) under Public Act 368 of 1978, as amended. LCC was formed by an interlocal agreement in 1996 and operates under the terms of the Urban Cooperation Act. Originally there were six participating counties: Allegan, Berrien, Cass, Muskegon, Ottawa, and Van Buren. As of fiscal year 2002/2003, Van Buren County aligned with another CA; and the LCC region now consists of five member counties.

LCC initially managed the funding for the Medicaid substance abuse services carve-out for the entire LCC region. Beginning in fiscal year 2002/2003, the MDCH contracted for Medicaid Specialty Services through designated Prepaid Health Plans (PHP/PIHPs), which were defined by MDCH as community mental health agencies or groups of agencies that consisted of a minimum of 20,000 Medicaid covered lives. The LCC five-county region became divided into three CMH-PIHP sub-regions, and affiliation agreements were developed with these three CMH-PIHPs. Medicaid funding for Allegan and Cass Counties came to Kalamazoo CMH; Medicaid funding for Berrien County came to Calhoun County CMH (a.k.a. Summit Pointe); and Medicaid funding for Muskegon and Ottawa Counties came to Muskegon County CMH.

Difficulties were encountered with this arrangement since each PIHP sub-region had to be managed separately. Because the funding was now subdivided, we could no longer shift available Medicaid funding where it was needed. This resulted in one PIHP sub-region lapsing Medicaid funding while another PIHP sub-region had to dip into the risk pool. It also resulted in inequities of benefit for our consumers. Consumers from one PIHP sub-region could get authorized residential and subacute detox services without limits while consumers from another PIHP sub-region couldn't get any of these allowable services.

In FY03/04 MDCH's 1915-B waiver with the federal government was renewed, creating "B" basic plan services and "B-3" additional plan services (i.e. subacute detox and residential care). The "B-3" services, which were formerly allowable, now became entitlements when requested and medically necessary. The PEPM payments were recalculated, and effective January 1, 2004, B-3 services became a consistent benefit in the LCC region and throughout the state.

On September 30, 2004, MDCH issued a Technical Advisory (TA) for Coordinating Agencies that encompassed more than one PIHP region. This TA allowed the Medicaid funding to be managed regionally by the CA.

**Lakeshore Coordinating Council**  
**Financial Statements for the Fiscal Year Ended September 30, 2004**  
**Management's Discussion and Analysis**

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FY03/04 was the first year of the federal funding for the State Medical Program eligibles going to CAs under an approved Health Insurance Flexibility and Accountability (HIFA) Adult Benefit Waiver (ABW). This is a limited benefit (it does not cover residential services) and it has annual benefit limits. It also requires a block grant match of 30.88 percent of the ABW expenditures. In FY03/04 the ABW funding was depleted with May 2004 services; and Block Grant funding had to be used for the remainder of the fiscal year.

LCC continued to contract with the MDCH for the Block Grant funded services for residents of the LCC region. All program operating advances were withdrawn from providers by the end of FY03/04 since MDCH was withdrawing CA operating advances from the October, 2004, pre-payment.

In FY03/04 Block Grant funding accounted for 69.5% of LCC revenues received from MDCH, Medicaid funding accounted for 28.0%, and ABW funding accounted for 2.5%.

**Financial Statements:**

Two types of financial statements are provided: Government-Wide Financial Statements and Fund Financial Statements.

**Government-wide financial statements** are designed to present the organization's finances in a layout similar to that of a private sector business. They consist of a Statement of Net Assets (providing historical balance sheet information), which shows the difference between assets and liabilities; and a Statement of Activities (providing historical income statement information), which shows revenues and expenses and the change in net assets from the previous year.

**Fund financial statements** offer a series of statements that focus on the major governmental funds. They report information using the modified accrual basis of accounting. For LCC, the major funds consist of the general fund and the proprietary fund. The general fund statements identify activities of our day-to-day operations.

The proprietary fund identifies funds set aside in our Internal Service Fund for risk management. Reconciliations are also offered between the Fund Financial Statements and the Government-wide Statements.



**Lakeshore Coordinating Council**  
**Financial Statements for the Fiscal Year Ended September 30, 2004**  
**Management's Discussion and Analysis**

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Comparison with Prior Year

LCC's total net assets show an increase for fiscal year 2003/2004, as compared to the prior year, of \$2,336.

**Net Assets**

	<b>Governmental Activities</b>	
	<b>2004</b>	<b>2003</b>
Current and Other Assets	1,390,174	1,451,398
Capital Assets – Depreciable, Net	5,414	10,038
<b>Total Assets</b>	1,395,588	1,461,436
Current Liabilities	1,390,174	1,159,069
<b>Total Liabilities</b>	1,390,174	1,159,069
<b>Net Assets:</b>		
Invested in Capital Assets	5,414	10,038
Restricted for Risk Management	93,565	93,026
Unrestricted	205,724	199,303
<b>Total Net Assets</b>	\$304,703	\$302,367
<b>Changes in Net Assets</b>	<b>2,336</b>	

Analysis of Overall Financial Position

	<b>Governmental Activities</b>	
	<b>2004</b>	<b>2003</b>
<b>Revenues</b>		
Substance Abuse Block Grant	\$4,033,131	\$3,971,533
Substance Abuse-Medicaid	1,621,115	1,491,363
MIChild	12,845	4,410
Local	506,480	454,272
Adult Benefit Waiver	143,289	-
<b>Total Revenues</b>	6,316,860	5,921,578
<b>Expenses</b>		
Payments to Subrecipients	5,348,998	4,929,521
LCC expenses	465,084	467,454
PA2	500,442	445,402
<b>Total Expenses</b>	6,314,524	5,842,377
<b>Excess of Rev. Over (Under) Exp.</b>	\$2,336	\$79,201

**Lakeshore Coordinating Council**  
**Financial Statements for the Fiscal Year Ended September 30, 2004**  
**Management's Discussion and Analysis**

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Currently Known Information Affecting the Future

At the end of FY 2003/2004, a review of the 02/03 audit was received by MDCH, which found three of the counties in the LCC region out of compliance with the Public Act 2 statute by not distributing these funds directly to LCC. These counties were contacted by MDCH and asked for their immediate compliance with threat of intervention by the State Treasurer.

This has resulted in agreements being negotiated between these counties and LCC. The last agreement was received in April, 2005. These agreements stipulate that 50% of the PA2 funds will be forwarded to LCC within 30 days of receipt from the State Treasurer; and LCC then will forward these funds on to the respective county-funded program with 60 days of receipt. To date PA2 funds have been received by one of the three counties.

**GOVERNMENT-WIDE  
FINANCIAL STATEMENTS**

LAKESHORE COORDINATING COUNCIL  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2004 AND 2003

	Governmental Activities	
	2004	2003
<b>Assets</b>		
Current Assets		
Cash and Cash Equivalents	\$739,928	\$366,973
Program Advances	8,820	159,855
Due from Other Governmental Units	543,475	826,857
Prepaid Expenses	4,386	4,687
Cash and Cash Equivalents - Restricted	93,565	93,026
Total Current Assets	1,390,174	1,451,398
Noncurrent Assets		
Capital Assets - Depreciable, Net	5,414	10,038
Total Assets	1,395,588	1,461,436
<b>Liabilities</b>		
Current Liabilities		
Accounts Payable	481,185	534,760
Deferred Revenue	4,570	7,756
Due to Other Governmental Units	117,683	121,826
Accrued Wages and Other Payroll Liabilities	4,935	11,931
Operating Advance	480,896	480,896
Other Liabilities	1,616	1,900
Total Current Liabilities	1,090,885	1,159,069
<b>Net Assets</b>		
Invested in Capital Assets	5,414	10,038
Restricted for Risk Management	93,565	93,026
Unrestricted	205,724	199,303
Total Net Assets	\$304,703	\$302,367

The notes to the financial statements are an integral part of this statement.

LAKESHORE COORDINATING COUNCIL  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2003
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental Activities					
Health & Welfare - Mental Health	<u>\$6,314,524</u>	<u>-</u>	<u>\$6,311,748</u>	(\$2,776)	\$70,927
General Revenues					
Unrestricted Investment Earnings				4,573	6,632
Restricted Investment Earnings				<u>539</u>	<u>1,642</u>
Total General Revenues and Contributions				<u>5,112</u>	<u>8,274</u>
Change in Net Assets				2,336	79,201
Net Assets - October 1 (as restated)				<u>302,367</u>	<u>223,166</u>
Net Assets - September 30				<u>\$304,703</u>	<u>\$302,367</u>

The notes to the financial statements are an integral part of this statement.

## **FUND FINANCIAL STATEMENTS**

LAKESHORE COORDINATING COUNCIL  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2004 AND 2003

	General Fund	
	2004	2003
<b>Assets</b>		
Cash and Cash Equivalents	\$739,928	\$366,973
Program Advances	8,820	159,855
Due from Other Governmental Units	543,475	826,857
Prepaid Expenses	4,386	4,687
Total Assets	<u>\$1,296,609</u>	<u>\$1,358,372</u>
<b>Liabilities</b>		
Accounts Payable	\$481,185	\$534,760
Deferred Revenue	4,570	7,756
Due to Other Governmental Units	117,683	121,826
Accrued Wages and Other Payroll Liabilities	4,935	11,931
Operating Advance	480,896	480,896
Other Liabilities	1,616	1,900
Total Liabilities	<u>1,090,885</u>	<u>1,159,069</u>
<b>Fund Balance</b>		
Reserved for Prepaid Expenses	4,386	4,687
Unreserved and Undesignated	201,338	194,616
Total Fund Balance	<u>205,724</u>	<u>199,303</u>
Total Liabilities and Fund Balance	<u>\$1,296,609</u>	<u>\$1,358,372</u>

The notes to the financial statements are an integral part of this statement.

LAKESHORE COORDINATING COUNCIL  
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

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Total fund balance - governmental funds \$205,724

Amounts reported for governmental activities in the statement of  
net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the funds.

Add: capital assets 44,574  
Deduct: accumulated depreciation (39,160)

An internal service fund is used by management to cover the risk of  
overspending the Managed Care Specialty Services Program contract.  
The assets and liabilities of the internal service fund are included in  
governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted  
for in the internal service fund 93,565

Net assets of governmental activities \$304,703

The notes to the financial statements are an integral part of this statement.



LAKESHORE COORDINATING COUNCIL  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

	General Fund	
	2004	2003
<b>Revenues</b>		
Federal Grants		
Substance Abuse Block Grant	\$4,033,131	\$3,971,533
Substance Abuse - Medicaid Managed Care	1,621,115	1,491,363
Adult Benefit Waiver	143,289	-
MI Child	12,845	4,410
Total Federal Grants	5,810,380	5,467,306
State Grants		
PA 2	500,442	445,402
Total State Grants	500,442	445,402
Other Revenues		
Fees and Charges	926	596
Interest	4,573	6,632
Total Other Revenues	5,499	7,228
Total Revenues	6,316,321	5,919,936
<b>Expenditures</b>		
Payments to Subrecipients - Block Grant	3,648,970	3,651,533
Payments to Subrecipients - Medicaid Managed Care	1,475,159	1,277,988
Salaries and Wages	222,405	215,422
Fringe Benefits	95,624	99,846
Travel	15,154	12,796
Supplies and Materials	17,337	18,662
Other	114,564	114,912
Adult Benefit Waiver	207,400	-
MI Child	12,845	4,410
PA 2	500,442	445,402
Total Expenditures	6,309,900	5,840,971
Excess of Revenues Over (Under) Expenditures	6,421	78,965
Other Financing Sources		
Operating Transfer In	-	22,338
Fund Equity - October 1	199,303	98,000
Fund Equity - September 30	\$205,724	\$199,303

The notes to the financial statements are an integral part of this statement.

LAKESHORE COORDINATING COUNCIL  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

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Net change in fund balances - total governmental funds	\$6,421
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Deduct: depreciation expense	(4,624)
An internal service fund is used by management to cover the risk of overspending the contract. The net revenue (expense) of the fund attributable to those funds is reported with the governmental activities.	
Add: interest income from governmental internal service fund	<u>539</u>
Change in net assets of governmental activities	<u><u>\$2,336</u></u>

The notes to the financial statements are an integral part of this statement.

LAKESHORE COORDINATING COUNCIL  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
SEPTEMBER 30, 2004 AND 2003

	Internal Service Fund	
	2004	2003
<b>Assets</b>		
Cash and Cash Equivalents - Restricted	<u>\$93,565</u>	<u>\$93,026</u>
Total Assets	<u><u>\$93,565</u></u>	<u><u>\$93,026</u></u>
<b>Net Assets</b>		
Restricted For Risk Management	<u><u>\$93,565</u></u>	<u><u>\$93,026</u></u>

The notes to the financial statements are an integral part of this statement.

LAKESHORE COORDINATING COUNCIL  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

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	Internal Service Fund	
	2004	2003
Non-Operating Revenues (Expense)		
Interest Income	\$539	\$1,642
Bank Fees	-	(1,084)
Operating Transfers		
Operating Transfer Out	-	(22,338)
Change In Net Assets	539	(21,780)
Net Assets, October 1	93,026	114,806
Net Assets, September 30	<u>\$93,565</u>	<u>\$93,026</u>

The notes to the financial statements are an integral part of this statement.

LAKESHORE COORDINATING COUNCIL  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

	Internal Service Fund	
	2004	2003
Cash Flows from Investing Activities		
Interest Income	\$539	\$1,642
Bank Fees	-	(1,084)
Net Cash Provided From Investing Activities	539	558
Cash Flows from Financing Activities		
Operating Transfers Out	-	(22,338)
Net Change in Cash and Cash Equivalents	539	(21,780)
Cash and Cash Equivalents, Beginning Of Year	93,026	114,806
Cash and Cash Equivalents, End Of Year	<u>\$93,565</u>	<u>\$93,026</u>
Reconciliation of Operating Income To Net Cash Provided		
By (Used for) Operating Activities:		
Operating Income (Loss)	-	-

The notes to the financial statements are an integral part of this statement.

## **NOTES TO THE FINANCIAL STATEMENTS**

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Lakeshore Coordinating Council (the Council) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

In June of 1999, the GASB issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Council's activities.
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Council has implemented the provisions of Statement No. 34 effective October 1, 2002.

### **Reporting Entity**

The Allegan, Muskegon, Ottawa Substance Abuse Agency (AMOSAA) was formed by an inter-local agreement under the Urban Cooperation Act of 1967, as amended, by the Counties of Allegan, Muskegon, and Ottawa. The agency was established for the purpose of inventory review, planning and coordination of programs and facilities which provide prevention, treatment and rehabilitation services for individuals dependent upon or abusing alcohol and drugs within the three-county area.

The Organization merged with Berrien, Cass, and Van Buren counties in April of 1996 at which time the Organization changed its name to Lakeshore Coordinating Council (the "Council"). Van Buren County elected not to be a member of the Lakeshore Coordinating Council effective October 1, 2002.

The Council has its own board of directors appointed by the county commissioners of the participating counties.

Lakeshore Coordinating Council  
Notes To Financial Statements

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In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present all of the Council's funds. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

### **Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the Council. *Governmental activities* normally are supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Council's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

### **Measurement Focus, Basis of Accounting and Basis of Presentation**

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.



Lakeshore Coordinating Council  
Notes To Financial Statements

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**Governmental Fund Financial Statements** - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Council considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end.

Expenditures are recorded when the related fund liability is incurred. Exceptions to this general rule include (if applicable):

- Employees' vested annual leave is recorded as expenditures when utilized.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

**Proprietary Fund Financial Statements** – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### **Fund Accounting**

The financial activities of the Council are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Council uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Lakeshore Coordinating Council  
Notes To Financial Statements

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The financial activities of the Council that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

Governmental Funds

General Fund – This fund is the Council's primary operating fund. It accounts for all financial resources of the Council, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

**Budgetary Data**

Budgets are adopted by the Council for the general fund. The budget is prepared on a basis consistent with generally accepted accounting principles and is adopted at the line item level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

**Cash and Cash Equivalents**

The Council's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are stated at cost.

Michigan Compiled Laws, Section 129.91, authorized the Council to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

### **Receivables and Payables between Funds**

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

### **Inventories**

The Council does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are recorded as an expenditure when purchased.

### **Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### **Fixed Assets**

Capital assets, which include equipment, software and vehicles, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Lakeshore Coordinating Council  
Notes To Financial Statements

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Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Council are depreciated using the straight line method over the following estimated useful lives:

<b>Assets</b>	<b>Years</b>
Machinery and Equipment	5
Furniture and Fixtures	7
Computer Equipment	5

### **Deferred Revenue**

Deferred revenues arise when the Council receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Council has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

### **Governmental Fund – Fund Balance Reserves and Designations**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use.

### **Grants**

Grants from the Department of Community Health (DCH) and other governmental units are recorded as revenues when the actual expenditures financed by the grant are incurred. Excess funding is treated as deferred until used or until retrieved by the source.

## **NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **Budgetary Information**

Annual budgets are adopted at the line item level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Council does not maintain a formalized encumbrance accounting system.

### Excess Of Expenditures Over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. Budgets for the budgetary funds were adopted at the functional level but have been presented at the line item level in this report.

During the year ended September 30, 2004, The Council did not incur expenditures in excess of the amounts budgeted on the functional level as shown on the budget comparison schedule in the back of this report.

### Compensated Absences

It is management's policy not to accrue a liability for compensated absences. The amount of accrued compensated absences that ultimately may be paid by the Council is not considered to be material in relation to the financial statements taken as a whole. Accordingly, no provision is included in these financial statements.

### NOTE 3 – CASH AND INVESTMENTS

At September 30, the carrying amount of the Council's cash and cash equivalents was as follows:

Cash & Cash Equivalents	2004	2003
Petty Cash	\$200	\$200
Checking, Savings, And Money Market Accounts	833,293	459,799
<b>Totals</b>	<b>\$833,493</b>	<b>\$459,999</b>

The bank balance at year end was \$873,622 of which \$400,000 was covered by federal depository insurance and \$473,622 was uninsured and uncollateralized. Some of the deposits that exceed FDIC insurance coverage are held at local banks.

The Council believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Council evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Cash and investments in the Internal Service Fund have been restricted in the amount of \$93,565 to cover the risk of overspending their authorized projected revenues covered by the Medicaid contract.

**NOTE 4 – PROGRAM ADVANCES**

Program Advances represent operating funds advanced to the following agencies or governmental units as of September 30<sup>th</sup>:

Due From:	2004	2003
Berrien County Health Department	-	\$50,000
Shoreline Consultation Services	\$8,820	46,355
Cass/Woodlands Addiction Center	-	16,000
Michiana Addiction and Prevention Services	-	47,500
<b>Total</b>	<b>\$8,820</b>	<b>\$159,855</b>

**NOTE 5 – DUE FROM OTHER GOVERNMENTAL UNITS**

Due from other governmental units as of September 30<sup>th</sup> consists of the following:

Due From:	2004	2003
Allegan and Ottawa Counties – P.A. 2	\$66,523	\$68,688
State of Michigan – MI Child	-	1,562
Bureau of Substance Abuse Services	439,016	756,145
Berrien County Mental Health Authority	36,582	-
Other Governmental Units	1,354	462
<b>Total</b>	<b>\$543,475</b>	<b>\$826,857</b>

**NOTE 6 – PREPAID EXPENSES**

Prepaid expenses represent payments for insurance that will benefit future periods:

## NOTE 7 – CAPITAL ASSETS

A summary of changes in capital assets is as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Machinery and Equipment	\$10,634	-	-	\$10,634
Furniture and Fixtures	11,266	-	-	11,266
Computer Equipment	22,674	-	-	22,674
Sub-total	44,574	-	-	44,574
Accumulated Depreciation	(34,536)	(\$4,624)	-	(39,160)
<b>Totals</b>	<b>\$10,038</b>	<b>(\$4,624)</b>	<b>-</b>	<b>\$5,414</b>

## NOTE 8 – DEFERRED REVENUE

Deferred revenue represents amounts received in advance of the period in which they were earned as follows:

<b>Deferred Revenue</b>	<b>2004</b>	<b>2003</b>
MI Child	\$4,570	\$7,756
<b>Totals</b>	<b>\$4,570</b>	<b>\$7,756</b>

## NOTE 9 - DUE TO OTHER GOVERNMENTAL UNITS

Due to other governmental units as of September 30<sup>th</sup> consist of the following:

<b>Due To:</b>	<b>2004</b>	<b>2003</b>
Various Providers – PA2 Funds	\$76,934	\$68,688
Mid-South Coordinating Agency – Berrien County Medicaid Savings	-	14,174
State of Michigan – Prior Year Refunds	40,677	38,892
Other	72	72
<b>Total</b>	<b>\$117,683</b>	<b>\$121,826</b>

## NOTE 10 – ACCRUED WAGES AND OTHER PAYROLL LIABILITIES

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes and related liabilities.

**NOTE 11 – FUND BALANCE RESERVES**

A portion of the fund balance at September 30<sup>th</sup> has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

A portion of net assets has been reserved to cover the risk of overspending their authorized projected revenues covered by the Medicaid contract. As of September 30, 2004 and 2003, the amount reserved was \$93,565 and \$93,026, respectively.

**NOTE 12 – OPERATING ADVANCES**

As of September 30, 2004 and 2003, the Council has outstanding advances due to the State totaling \$480,896. Substance abuse providers have held \$8,820 and \$159,855 of these funds as of September 30, 2004 and 2003, respectively. Until such time as the advances should be adjusted no amount will be recognized as revenue.

**NOTE 13 - LEASES**

Lakeshore Coordinating Council leases its building from the United States Post Office. The term of the lease is two years beginning February 1, 2002 and calls for monthly rental payments of \$1,562. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the financial statements.

The following is a schedule of the future minimum lease payments required under the above operating lease which has an initial or remaining noncancelable lease term as of September 30, 2004:

Year Ending September 30 <sup>th</sup>	Amount
2004	\$6,248

**NOTE 14 – COMPLIANCE AUDITS**

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures, which may be disallowed by the granting agencies.

**NOTE 15 – RISK MANAGEMENT**

The Council is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Council has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance, if any, have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.



Also, the Council authorized the establishment of an Internal Service Fund to account for funds to be used to cover the risk of overspending their authorized projected revenues covered by the Medicaid contract.

The contract entered into by the council provides for the use of Medicaid funding for the establishment of an Internal Service Fund that is restricted for use only to meet expected future risk corridor requirements of the contract. Expenditures from the Internal Service Fund will occur when, in any one fiscal year, the Council finds it necessary to expend more to provide services necessary to carry out the contract requirements than revenue provided to the Council by the contract.

#### **NOTE 16 – PENSION PLAN**

The Council contributes to the Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan. The system provides for the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty death allowance, duty death allowance, post-retirement adjustments, and death-after-retirement surviving spouse benefit, to plan members and their beneficiaries. The most recent period for which actuarial data was available was for the year ending December 31, 2003.

The information presented in this section is intended only as general information regarding the retirement plan and is not a substitute for the MERS Plan Document as revised.

MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

During the fiscal years ended September 30, 2004 and 2003, the Council's contributions to the plan were \$45,299 (including an extra contribution of \$16,000) and \$40,872 (including an extra contribution of \$14,049), respectively. Contributions were made in accordance with contribution requirements determined by an actuarial valuation. The Council's payroll for employees covered by the plan for the years ended September 30, 2004 and 2003 was \$222,405 and \$212,473, respectively.

The employer contribution rate has been determined based on the entry age normal funding method. Under this method, the total actuarially-determined contribution requirement is the sum of the normal cost and the payment required to amortize the unfunded accrued liability over the amortization period of 30 years, less the accelerated funding credit, if available. The normal cost is the cost of benefit rights accruing on the basis of current service. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases. Additional information regarding the pension plan of Lakeshore Coordinating Council can be found in the annual report issued by Gabriel, Roeder, Smith & Company. A copy of that report can be requested by writing to the above actuaries at: One Towne Square, Suite 800, Southfield, Michigan, 48076.

Lakeshore Coordinating Council  
Notes To Financial Statements

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2003 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure. The following table presents information required by GASB Statements Number 25 and 27:

<b>GASB 25 INFORMATION (as of 12/31/03)</b>	
Actuarial Accrued Liability:	
Retirees and Beneficiaries Currently Receiving Benefits	\$144,965
Terminated Employees Not Yet Receiving Benefits	15,022
Current Employees – Accumulated Employee Contributions Including Allocated Investment Income Employer Financed	 0 411,028
Total Actuarial Accrued Liability	571,015
Net Assets Available For Benefits At Actuarial Value (market value \$497,425)	544,760
Unfunded (Overfunded) Actuarial Accrued Liability	26,255
<b>GASB 27 INFORMATION (as of 12/31/01)</b>	
Fiscal Year Beginning	Oct. 1, 2005
Annual Required Contributions (ARC)	\$22,176
Amortization Factor Used	.053632

Additional information can be obtained by writing to: Lakeshore Coordinating Council, 324 Washington Street, Grand Haven, Michigan, 49417.

**NOTE 17 - PA 2 FUNDS**

Currently, only two of the five counties (Allegan and Ottawa) that are members of Lakeshore Coordinating Council (LCC) are passing the PA 2 funds through LCC as required by law. These counties develop substance abuse budgets and contracts with LCC and local service providers for these funds. They reimburse LCC based on Financial Status Reports (FSRs) submitted. The other three counties distribute 50% of the PA 2 funding directly to their county substance abuse assessment, prevention, and treatment programs.

LCC has been annually receiving written confirmations from each of the LCC counties verifying the PA 2 revenues and expenditures for direct substance abuse services. As a result of a site visit by the Bureau of Substance Abuse Services in May 2000, a revised confirmation form was developed and LCC was instructed to record the revenues and expenditures in their financial statements based on these confirmations for all LCC counties.

Lakeshore Coordinating Council  
Notes To Financial Statements

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However, based on a subsequent review by Michigan Department of Community Health, LCC was instructed to record in their financial statements only those PA 2 revenues and expenditures that were actually received and disbursed by LCC and disclose the non-pass through funds in the notes.

PA 2 funds that passed through LCC totaled \$500,442 from Allegan and Ottawa Counties. The supplemental schedule in the back of this report shows total PA 2 revenues of \$1,213,652, and total expenditures of \$1,142,845. The five member counties confirmed these amounts and they agree with amounts reported on the FSRs by LCC providers.

**REQUIRED SUPPLEMENTAL INFORMATION**

BUDGETARY COMPARISON SCHEDULE

LAKESHORE COORDINATING COUNCIL  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Budgeted Amounts		Actual	Variances Between Actual And Final Budget
	Original	Final		
<b>Revenues</b>				
Federal Grants				
Substance Abuse Block Grant	\$4,102,940	\$4,184,299	\$4,033,131	(\$151,168)
Substance Abuse - Medicaid Managed Care	1,632,665	1,632,665	1,621,115	(11,550)
Adult Benefit Waiver	143,289	143,289	143,289	-
MI Child	-	-	12,845	12,845
Total Federal Grants	<u>5,878,894</u>	<u>5,960,253</u>	<u>5,810,380</u>	<u>(149,873)</u>
State Grants				
PA 2	<u>545,968</u>	<u>545,968</u>	<u>500,442</u>	<u>(45,526)</u>
Total State Grants	<u>545,968</u>	<u>545,968</u>	<u>500,442</u>	<u>(45,526)</u>
Other Revenues				
Fees and Charges	-	-	926	926
Interest	<u>7,167</u>	<u>5,167</u>	<u>4,573</u>	<u>(594)</u>
Total Other Revenues	<u>7,167</u>	<u>5,167</u>	<u>5,499</u>	<u>332</u>
Total Revenues	6,432,029	6,511,388	6,316,321	(195,067)
<b>Expenditures</b>				
Payments to Subrecipients - Block Grant	3,784,940	3,866,299	3,648,970	217,329
Payments to Subrecipients - Medicaid Managed Care	1,475,159	1,475,159	1,475,159	-
Salaries and Wages	218,235	218,235	222,405	(4,170)
Fringe Benefits	94,225	88,225	95,624	(7,399)
Travel	12,300	13,300	15,154	(1,854)
Supplies and Materials	16,545	16,545	17,337	(792)
Other	133,220	136,220	114,564	21,656
Adult Benefit Waiver	143,289	143,289	207,400	(64,111)
MI Child	-	-	12,845	(12,845)
PA 2	<u>545,968</u>	<u>545,968</u>	<u>500,442</u>	<u>45,526</u>
Total Expenditures	<u>6,423,881</u>	<u>6,503,240</u>	<u>6,309,900</u>	<u>193,340</u>
Excess of Revenues Over (Under) Expenditures	8,148	8,148	6,421	(1,727)
Fund Equity - October 1	<u>199,303</u>	<u>199,303</u>	<u>199,303</u>	<u>-</u>
Fund Equity - September 30	<u>\$207,451</u>	<u>\$207,451</u>	<u>\$205,724</u>	<u>(\$1,727)</u>

The notes to the financial statements are an integral part of this statement.



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Lakeshore Coordinating Council  
Grand Haven, Michigan

We have audited the basic financial statements of the Lakeshore Coordinating Council as of and for the year ended September 30, 2004, and have issued our report thereon dated March 9, 2005. We conducted our audit in accordance with generally accepted auditing standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Lakeshore Coordinating Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Lakeshore Coordinating Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Lakeshore Coordinating Council in a separate letter dated March 9, 2005.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Roslund, Prestage & Company P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

March 9, 2005



## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Lakeshore Coordinating Council  
Grand Haven, Michigan

### Compliance

We have audited the compliance of Lakeshore Coordinating Council with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, that are applicable to each of its major federal programs for the year ended September 30, 2004. The Council's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Council's management. Our responsibility is to express an opinion on the Council's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Council's compliance with those requirements.

In our opinion, the Lakeshore Coordinating Council complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.



## Internal Control Over Compliance

The management of Lakeshore Coordinating Council is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Council's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Roslund, Prestage & Company, P.C.*  
Roslund, Prestage & Company, P.C.  
Certified Public Accountants

March 9, 2005

Lakeshore Coordinating Council  
Schedule Of Expenditures Of Federal Awards  
For The Year Ended September 30, 2004

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant / Project Number	Approved Grant Award Amount	(Accrued) Deferred Revenue At 10/01/2003	Current Year Receipts	Current Year Expenditures	(Accrued) Deferred Revenue At 09/30/2004	Adjust- ments	GPFS Federal Revenue Recognized	Prior Year Expend- itures	GPFS Page
<b>Department of Health and Human Services</b>											
Passed Through The Michigan Department of Community Health Bureau Of Substance Abuse Services											
Medical Assistance Program	93.778		\$1,621,115	-	\$1,621,115	\$1,621,115	-	-	\$1,621,115		
Substance Abuse Prevention & Treatment Block Grant	93.959		3,867,449	(\$756,145)	5,062,566	3,867,405	(\$439,016)	-	3,867,405	\$3,971,533	
Adult Benefit Waiver	93.959		143,289	-	143,289	143,289	-	-	143,289		
Total for 93.959			<u>4,010,738</u>	<u>(\$756,145)</u>	<u>5,205,855</u>	<u>4,010,694</u>	<u>(\$439,016)</u>	-	<u>4,010,694</u>		
Methamphetamine Prevention State Incentive Grant	93.243		71,500	-	2,170	2,170	-	-	2,170		
Total for 93.243	93.243		<u>245,350</u>	<u>-</u>	<u>163,556</u>	<u>163,556</u>	<u>-</u>	<u>-</u>	<u>163,556</u>		
			<u>316,850</u>	<u>-</u>	<u>165,726</u>	<u>165,726</u>	<u>-</u>	<u>-</u>	<u>165,726</u>		
MI Child	93.767		12,845	(1,562)	14,407	12,845	-	-	12,845	4,410	
<b>TOTALS</b>			<u>\$5,961,548</u>	<u>(\$757,707)</u>	<u>\$7,007,103</u>	<u>\$5,810,380</u>	<u>(\$439,016)</u>	<u>-</u>	<u>\$5,810,380</u>		

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The notes to the financial statements are an integral part of this statement.

LAKESHORE COORDINATING COUNCIL  
SCHEDULE OF FINDINGS AND QUESTIONED COST  
YEAR ENDED SEPTEMBER 30, 2004

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**A. SUMMARY OF AUDIT RESULTS**

The auditor's report expresses an unqualified opinion on the basic financial statements of the Council.

There were no reportable conditions disclosed as a result of the audit of the financial statements.

No instances of noncompliance material to the financial statements of the Council were disclosed during the audit.

There were no reportable conditions disclosed during the audit of the major federal award programs.

The auditor's report on compliance for the major federal award programs for the Council expresses an unqualified opinion.

Audit findings relative to the major federal award programs for the Council is reported in Part C of this report.

The programs tested as a major programs were Substance Abuse Prevention and Treatment Block Grant - CFDA # 93.959.

The threshold for distinguishing Types A and B programs was \$300,000.

The Council was determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

None.

**C. FINDINGS AND QUESTIONED COST - MAJOR FEDERAL AWARD PROGRAMS AUDIT.**

None

**OTHER SUPPLEMENTAL INFORMATION**

LAKESHORE COORDINATING COUNCIL  
SUBSTANCE ABUSE PREVENTION & TREATMENT  
SCHEDULE OF BUDGETED, REPORTED, AND AUDITED AMOUNTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Category	Budgeted	Reported (FSR)	Audited	Variance (Audit-Report)	Local Funds
<u>Central Administration</u>					
1 Salaries and Wages	\$218,235	\$220,768	\$222,405	\$1,637	
2 Fringe Benefits	88,225	95,500	95,624	124	
3 Travel	13,300	15,023	15,154	131	
4 Supplies and Materials	16,545	17,337	17,337	0	
5 Contractual	0	0	0	0	
6 Equipment	0	0	0	0	
7 Other Expenses	124,446	114,286	114,564	278	
8 Indirect Costs	0	0	0	0	
9 Other Cost Distributions	0	0	0	0	
10 <b>Sub-total Central Administration</b>	<u>460,751</u>	<u>462,914</u>	<u>465,084</u>	<u>2,170</u>	
11 <b>Less: Central Admin. Fees &amp; Collections</b>	0	0	0	0	
12 <b>Less: Central Admin. Medicaid</b>	(137,584)	(139,845)	(139,845)	0	\$0
13 <b>Net Central Administration Expenditures</b>	<u>323,167</u>	<u>323,069</u>	<u>325,239</u>	<u>2,170</u>	
14 <b>Add: Categorical Grants Administered Centrally</b>					
15 Categorical Grant A	0	0	0	0	
16 Categorical Grant B	0	0	0	0	
17 Categorical Grant C	0	0	0	0	
18 <b>Subtotal Central Administration and Categorical</b>	<u>323,167</u>	<u>323,069</u>	<u>325,239</u>	<u>2,170</u>	
19 <b>Gross Subcontractors' Expenditures</b>	6,501,375	6,869,088	6,866,918	(2,170)	
20 <b>Less: Subcontractors' Fees and Collections</b>	(97,978)	(114,296)	(114,296)	0	114,296
21 <b>Less: Medicaid (PEPM)</b>	(1,632,665)	(1,626,760)	(1,626,760)	0	
22 <b>Less: Medicaid Savings Carried Over</b>	(76,990)	0	0	0	
23 <b>Net Subcontractors' Expenditures</b>	<u>4,693,742</u>	<u>5,128,032</u>	<u>5,125,862</u>	<u>(2,170)</u>	
24 <b>Totals (Add line 18 + line 23)</b>	<u>\$5,016,909</u>	<u>\$5,451,101</u>	<u>\$5,451,102</u>	<u>\$0</u>	
25 <b>Funds Required</b>	<b>\$5,016,909</b>	<b>\$5,451,101</b>	<b>\$5,451,102</b>	<b>\$0</b>	
26 <b>Less: Local PA2 Funding (State Contract Amount)</b>	(655,136)	(641,292)	(641,292)	0	641,292
27 <b>Local PA2 (Not Reported on FSR)</b>					501,553
28 <b>Less: Other Local</b>	(28,307)	(313,530)	(313,530)	0	313,530
29 <b>Less: Direct Federal</b>	0	(186,348)	(186,348)	0	
30 <b>Less: Other</b>	(149,167)	(276,801)	(276,801)	(0)	
31 <b>Amount to be Paid by State Agreement</b>	<u>4,184,299</u>	<u>4,033,131</u>	<u>4,033,131</u>	<u>0</u>	
32 <b>Total DCH Payments</b>			4,033,131		
33 <b>(Overpayment)/Underpayment</b>			<u>\$0</u>		
34 <b>Local Funds Total</b>					\$1,570,671
35 <b>Local Match Requirement [(Expenditures less Medicaid and Direct Federal) * 10%]</b>					
[(Line 10 + 15 + 16 + 17 + 19 + 12 + 21 + 22 + 29) * 10%]					537,905
36 <b>Local Match (Shortfall)/Excess</b>					<u>\$1,032,766</u>

The notes to the financial statements are an integral part of this statement.

LAKESHORE COORDINATING COUNCIL  
SUBSTANCE ABUSE PREVENTION & TREATMENT  
SCHEDULE OF EXPENDITURES AND FUNDING SOURCES BY PROGRAM  
YEAR ENDED SEPTEMBER 30, 2004

Program	Final Budget (Net of fees and Medicaid)	Reported (FSR) (Net of fees and Medicaid)	Audited Expenditures				Audited Funding Sources						Variance (Audit-Report)	Questioned Cost (Audit-Funding)
			Gross Amount	Less Medicaid	Less Fees	Net Amount	State	PA2	Other Local	Direct Federal	Other	Total Funding		
Central Administration	\$323,167	\$323,069	\$462,914	\$139,845	\$0	\$323,069	\$318,000				\$5,069	\$323,069	\$0	\$0
Prevention	1,218,710	1,497,712	1,537,941		40,229	1,497,712	883,471	401,500	212,741			1,497,712	(0)	0
Treatment	2,859,194	2,791,797	4,352,024	1,486,915	73,312	2,791,797	2,290,238	234,938	46,375	0	220,246	2,791,797	0	0
Women's Services	310,389	326,123	326,123		0	326,123	291,643	4,854	23,734		5,892	326,123	0	0
HIV/EIP	50,000	49,999	50,755		756	49,999	49,999					49,999	0	0
State Disability Assist.	28,533	28,552	28,552		0	28,552	28,533		19			28,552	0	0
SIG Prevention	245,350	507,909	507,909			507,909	163,556		30,660	186,348	127,345	507,909	0	0
Methamphet. Prev.	71,500	2,147	2,147			2,147	2,147					2,147	0	0
Non-Synar	5,544	5,544	5,544			5,544	5,544					5,544	0	0
Totals	<u>\$5,112,387</u>	<u>\$5,532,852</u>	<u>\$7,273,909</u>	<u>\$1,626,760</u>	<u>\$114,297</u>	<u>\$5,532,852</u>	<u>\$4,033,131</u>	<u>\$641,292</u>	<u>\$313,529</u>	<u>\$186,348</u>	<u>\$358,552</u>	<u>\$5,532,852</u>	<u>(\$0)</u>	<u>\$0</u>

**Reconciliation of PA2 Funds:**

Beginning Balance	\$80,760
Additions	1,213,652
Contractual Expenditures	(641,292)
Expenditures Not Reported on FSR	(501,553)
Ending Balance	<u>\$151,567</u>

**Reconciliation of Medicaid Managed Care (PEPM) Funds:**

PEPM Payments Received	\$1,632,665
Medicaid Savings Carried Over	0
Expenditures	(1,626,760)
Medicaid Savings Carryforward	(5,905)
Lapse (Return to Grantee)	<u>\$0</u>

The notes to the financial statements are an integral part of this statement.

Michigan Department of Community Health  
Office of Drug Control Policy  
Report to the Legislature for Fiscal Year 2003/2004  
Expenditures and Revenues  
Lakeshore Coordinating Council

License # I-SATS #	Provider	ODCP	Medicaid	SDA	Fees	Local	Federal	Other	Total Revenues/ Expenditures	Units of Service	Admissions	Unduplicated Clients
<b>Administrative</b>												
	CA Admin	\$318,000	\$139,845	\$0	\$0	\$0	\$0	\$5,069	\$462,914	0	0	0
	Summit Pointe PIHP Admin		\$8,869						\$8,869			
	LBHA PIHP Admin		\$2,905						\$2,905			
	<b>Administrative Totals</b>	<b>\$318,000</b>	<b>\$151,619</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$5,069</b>	<b>\$474,688</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>AAR</b>												
610042 MI110189	Shoreline CS	\$126,547	\$95,976	\$0	\$235	\$0	\$0	\$0	\$222,758	2,608	1,304	1,155
110069 MI107615	Shoreline CS	\$84,364	\$47,588	\$0	\$0	\$0	\$0	\$0	\$131,952	1,168	584	517
	<b>AAR Totals</b>	<b>\$210,911</b>	<b>\$143,564</b>	<b>\$0</b>	<b>\$235</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$354,710</b>	<b>3,776</b>	<b>1,888</b>	<b>1,672</b>
<b>Detox</b>												
390160 MI100786	MAPS/Kalamazoo	\$56,500	\$21,600	\$0	\$300	\$0	\$0	\$0	\$78,400	392	141	124
410004 MI720532	Salvation Army Turning Point	\$78,138	\$64,700	\$0	\$1,088	\$5,800	\$0	\$0	\$149,726	777	213	178
	<b>Detox Totals</b>	<b>\$134,638</b>	<b>\$86,300</b>	<b>\$0</b>	<b>\$1,388</b>	<b>\$5,800</b>	<b>\$0</b>	<b>\$0</b>	<b>\$228,126</b>	<b>1,169</b>	<b>354</b>	<b>302</b>
<b>IOP</b>												
110024 MI907683	Berrien Co Hlth Dept (inc. WFS)	\$63,396	\$37,840	\$0	\$0	\$0	\$0	\$5,960	\$107,196	674	66	61
140001 MI905778	Cass/Woodlands (inc. WFS)	\$70,109	\$32,180	\$0	\$574	\$4,854	\$0	\$7,552	\$115,269	732	63	67
610004 MI750497	Child & Family, Musk.(inc. WFS)	\$200,962	\$134,997	\$0	\$10,313	\$6,562	\$0	\$67,620	\$420,454	3,628	321	306
700072 MI116103	Crossroads Holland	\$5,758	\$20,830	\$0	\$163	\$0	\$0	\$0	\$26,751	239	14	15
610059 MI100385	Crossroads Muskegon	\$6,155	\$49,040	\$0	\$685	\$0	\$0	\$6,155	\$62,035	554	26	32
110083 MI100651	MAPS - Benton Harbor (inc. HIV/EIP)	\$63,531	\$42,575	\$0	\$1,751	\$0	\$0	\$8,500	\$116,357	1,249	138	133
110082 MI108555	MAPS - Niles (inc. HIV/EIP)	\$25,103	\$22,990	\$0	\$1,738	\$0	\$0	\$4,710	\$54,541	587	58	63

The notes to the financial statements are an integral part of this statement.

Michigan Department of Community Health  
Office of Drug Control Policy  
Report to the Legislature for Fiscal Year 2003/2004  
Expenditures and Revenues  
Lakeshore Coordinating Council

License # I-SATS #	Provider	ODCP	Medicaid	SDA	Fees	Local	Federal	Other	Total Revenues/ Expenditures	Units of Service	Admissions	Unduplicated Clients
<b>IOP</b>												
140015 MI114116	Keepers of the Fire	\$1,995	\$2,520	\$0	\$0	\$0	\$0	\$0	\$4,515	43	11	5
390160 MI100786	MAPS - Kalamazoo	\$0	\$1,495	\$0	\$0	\$0	\$0	\$0	\$1,495	16	3	1
30036 MI100912	OAR-Allegan	\$9,338	\$11,828	\$0	\$1,068	\$9,026	\$0	\$4,038	\$35,298	347	34	31
700025 MI907832	OAR-Grand Haven	\$31,003	\$12,990	\$0	\$557	\$0	\$0	\$2,738	\$47,288	467	31	32
700026 MI907881	OAR-Holland (inc. WFS)	\$92,976	\$16,228	\$0	\$1,561	\$11,542	\$0	\$11,767	\$134,074	742	74	77
410247	Pathfinders Jellema House	\$0	\$1,575	\$0	\$0	\$0	\$0	\$0	\$1,575	15	1	1
410250 MI113670	Pathfinders Women's Ctr.	\$0	\$1,995	\$0	\$0	\$0	\$0	\$0	\$1,995	19	3	3
610050 MI116723	West MI Therapy (R & B only) (inc. WFS)	\$60,452	\$0	\$0	\$0	\$0	\$0	\$0	\$60,452	0	0	0
<b>IOP Totals</b>		<b>\$630,778</b>	<b>\$389,083</b>	<b>\$0</b>	<b>\$18,410</b>	<b>\$31,984</b>	<b>\$0</b>	<b>\$119,040</b>	<b>\$1,189,295</b>	<b>9,312</b>	<b>843</b>	<b>860</b>
<b>Methadone</b>												
610030 MI103580	Eastside Clinic	\$1,816	\$71,586	\$0	\$610	\$0	\$0	\$108	\$74,120	14,512	26	90
410015 MI907790	Project Rehab - Methadone Program	\$0	\$728	\$0	\$0	\$0	\$0	\$0	\$728	119	4	2
390114 MI110908	Victory Clinic-Kalamazoo	\$344	\$6,589	\$0	\$0	\$0	\$0	\$375	\$7,308	1,515	4	9
1334 TBA	Victory Clinic-South Bend	\$484	\$13,344	\$0	\$0	\$0	\$0	\$388	\$14,216	2,906	4	16
<b>Methadone Totals</b>		<b>\$2,644</b>	<b>\$92,247</b>	<b>\$0</b>	<b>\$610</b>	<b>\$0</b>	<b>\$0</b>	<b>\$871</b>	<b>\$96,372</b>	<b>19,052</b>	<b>38</b>	<b>117</b>
<b>OP</b>												
110024 MI907683	Berrien Co Hlth Dept	\$191,974	\$60,535	\$0	\$8,655	\$0	\$0	\$12,480	\$273,644	3,726	830	763
140001 MI905778	Cass/Woodlands	\$69,106	\$26,963	\$0	\$2,813	\$0	\$0	\$3,670	\$102,552	1,440	250	256
30024 MI115378	Child & Family, Allegan	\$80,822	\$30,428	\$0	\$1,737	\$10,719	\$0	\$2,975	\$126,681	2,243	268	318
700027 MI102541	Child & Family, Grand Haven	\$61,163	\$10,490	\$0	\$1,953	\$18,434	\$0	\$7,070	\$99,109	1,539	176	196
700016 MI904268	Child & Family, Holland	\$135,640	\$20,032	\$0	\$1,512	\$44,480	\$0	\$4,198	\$205,862	3,189	313	353
610004 MI750497	Child & Family, Muskegon	\$107,397	\$69,156	\$0	\$10,460	\$0	\$0	\$20,887	\$207,900	4,089	702	624
700072 MI102558	Crossroads Holland	\$11,301	\$18,596	\$0	\$649	\$0	\$0	\$430	\$30,976	437	52	55
610059 MI000385	Crossroads Muskegon	\$6,305	\$27,852	\$0	\$0	\$0	\$0	\$3,574	\$37,731	506	50	55
610030 MI103580	Eastside Clinic	\$1,251	\$43,199	\$0	\$0	\$0	\$0	\$70	\$44,520	1,264	26	90

The notes to the financial statements are an integral part of this statement.



Michigan Department of Community Health  
Office of Drug Control Policy  
Report to the Legislature for Fiscal Year 2003/2004  
Expenditures and Revenues  
Lakeshore Coordinating Council

License #	I-SATS #	Provider	ODCP	Medicaid	SDA	Fees	Local	Federal	Other	Total Revenues/ Expenditures	Units of Service	Admissions	Unduplicated Clients
<b>OP</b>													
110083	MI100651	MAPS - Benton Harbor (inc. HIV/EIP)	\$27,213	\$23,843	\$0	\$1,345	\$0	\$0	\$4,882	\$57,283	1,656	110	82
110082	MI108555	MAPS - Niles (inc. HIV/EIP)	\$44,775	\$20,415	\$0	\$2,867	\$0	\$0	\$5,175	\$73,232	2,159	154	100
390160	MI100786	MAPS - Kalamazoo	\$0	\$350	\$0	\$0	\$0	\$0	\$0	\$350	5	1	1
140015	MI114116	Keepers of the Fire	\$2,796	\$8,160	\$0	\$239	\$0	\$0	\$0	\$11,195	165	23	21
610039	MI110171	Alcohol & Chem. Abuse Conslts.	\$0	\$748	\$0	\$0	\$0	\$0	\$0	\$748	21	1	1
610062	MI100907	Muskegon CMH-Southern St.	\$3,860	\$9,995	\$0	\$110	\$0	\$0	\$1,425	\$15,390	577	37	44
610063	MI100908	Muskegon CMH-Peck St.	\$752	\$3,363	\$0	\$0	\$0	\$0	\$96	\$4,211	244	7	12
30036	MI100912	OAR-Allegan	\$19,503	\$21,063	\$0	\$2,537	\$24,343	\$0	\$2,020	\$69,466	1,304	165	183
700025	MI907832	OAR-Grand Haven	\$37,941	\$11,235	\$0	\$2,486	\$0	\$0	\$3,070	\$54,732	1,202	156	140
700026	MI907881	OAR-Holland	\$49,911	\$21,152	\$0	\$4,388	\$0	\$0	\$5,055	\$80,506	2,106	237	198
410015	MI907790	Project Rehab - Methadone Program	\$0	\$813	\$0	\$0	\$0	\$0	\$0	\$813	14	4	2
390114	MI110908	Victory Clinic-Kalamazoo	\$350	\$5,495	\$0	\$0	\$0	\$0	\$350	\$6,195	133	4	9
1334	TBA	Victory Clinic-South Bend	\$560	\$8,295	\$0	\$0	\$0	\$0	\$0	\$8,855	243	4	16
610022	MI102079	West MI Therapy	\$128,684	\$45,318	\$0	\$6,163	\$0	\$0	\$28,800	\$208,965	6,265	465	547
<b>OP Totals</b>			<b>\$981,304</b>	<b>\$487,496</b>	<b>\$0</b>	<b>\$47,914</b>	<b>\$97,976</b>	<b>\$0</b>	<b>\$106,227</b>	<b>\$1,720,916</b>	<b>34,527</b>	<b>4,035</b>	<b>4,100</b>
<b>Other</b>													
610004	MI750497	Child & Family, Musk. (HIV/EIP)	\$22,275	\$0	\$0	\$0	\$0	\$0	\$0	\$22,275	0	0	0
		CA Admin for Methamphetamine Grant	\$2,147	\$0	\$0	\$0	\$0	\$0	\$0	\$2,147	0	0	0
		ABW Match	\$64,015	\$0	\$0	\$0	\$0	\$0	\$0	\$64,015	0	0	0
<b>Other Totals</b>			<b>\$88,437</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$88,437</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Prevention</b>													
30021	MI114629	Allegan CMH	\$152,818	\$0	\$0	\$2,500	\$193,562	\$0	\$4,971	\$353,851	0	0	0
110024	MI907683	Berrien Co Hlth Dept	\$339,990	\$0	\$0	\$37,729	\$96,359	\$186,348	\$122,374	\$782,800	0	0	0
140001	MI905778	Cass/Woodlands	\$91,790	\$0	\$0	\$0	\$3,917	\$0	\$0	\$95,707	0	0	0
700016	MI904268	Child & Family Western MI-Holland	\$241,846	\$0	\$0	\$0	\$72,985	\$0	\$0	\$314,831	0	0	0
610025	MI102087	Every Woman's Place	\$77,128	\$0	\$0	\$0	\$1,008	\$0	\$0	\$78,136	0	0	0
610006	MI100545	Muskegon Co Hlth Dept	\$148,999	\$0	\$0	\$0	\$277,070	\$0	\$0	\$426,069	0	0	0
<b>Prevention Totals</b>			<b>\$1,052,571</b>	<b>\$0</b>	<b>\$0</b>	<b>\$40,229</b>	<b>\$644,901</b>	<b>\$186,348</b>	<b>\$127,345</b>	<b>\$2,051,394</b>	<b>0</b>	<b>0</b>	<b>0</b>

The notes to the financial statements are an integral part of this statement.

Michigan Department of Community Health  
Office of Drug Control Policy  
Report to the Legislature for Fiscal Year 2003/2004  
Expenditures and Revenues  
Lakeshore Coordinating Council

License #	I-SATS #	Provider	ODCP	Medicaid	SDA	Fees	Local	Federal	Other	Total Revenues/ Expenditures	Units of Service	Admissions	Unduplicated Clients
<b>Residential</b>													
730157		Kairos Healthcare (inc. R & B for Med.)	\$6,353	\$15,372	\$0	\$0	\$0	\$0	\$0	\$21,725	79	3	3
390160	MI100786	MAPS-Kalamazoo (inc. Rm & Bd for Med)	\$183,382	\$66,802	\$0	\$3,869	\$0	\$0	\$0	\$254,053	1,465	164	139
700003	MI700484	OAR-CAR Ctr.	\$97,176	\$26,370	\$3,416	\$0	\$121,188	\$0	\$0	\$248,150	3,447	52	63
700061	MI111849	OAR-Harbor House	\$128,346	\$78,972	\$25,117	\$0	\$50,934	\$0	\$0	\$283,369	3,637	49	59
410247		Pathfinders Jellema House	\$0	\$2,860	\$0	\$0	\$0	\$0	\$0	\$2,860	44	4	4
410250	MI113670	Pathfinders Women's Ctr.	\$0	\$17,250	\$0	\$0	\$0	\$0	\$0	\$17,250	240	14	15
410090		Wedgwood Christian Services	\$2,585	\$0	\$0	\$0	\$0	\$0	\$0	\$2,585	11	1	1
410004	MI720532	Salvation Army Turning Point	\$167,473	\$68,849	\$0	\$1,643	\$2,039	\$0	\$0	\$240,004	1,402	192	179
<b>Residential Totals</b>			<b>\$585,315</b>	<b>\$276,475</b>	<b>\$28,533</b>	<b>\$5,512</b>	<b>\$174,161</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,069,996</b>	<b>10,325</b>	<b>479</b>	<b>463</b>
<b>Lakeshore Totals</b>			<b>\$4,004,598</b>	<b>\$1,626,784</b>	<b>\$28,533</b>	<b>\$114,298</b>	<b>\$954,822</b>	<b>\$186,348</b>	<b>\$358,552</b>	<b>\$7,273,934</b>	<b>78161</b>	<b>7637</b>	<b>7514</b>

**Entity Inventory Information**

<b>Total SAPT Block Grant Percent for Alcohol:</b>	45%
<b>Total SAPT Block Grant Percent for Drugs:</b>	55%

The notes to the financial statements are an integral part of this statement.



## MANAGEMENT LETTER

Board Of Directors  
Lakeshore Coordinating Council

In planning and performing our audit of the financial statements for Lakeshore Coordinating Council for the fiscal year ended September 30, 2004 we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated March 9, 2005 on the financial statements of Lakeshore Coordinating Council.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

*Roslund, Prestage & Company, P.C.*

ROSLUND, PRESTAGE AND COMPANY, P.C.  
Certified Public Accountants

March 9, 2005

Lakeshore Coordinating Council  
Management Letter

### **Perform a Fraud Risk Assessment**

In light of the wave of notorious frauds involving large organizations in the last few years, such as Enron, WorldCom, and HealthSouth, there may be a misperception that fraud affects only large organizations. However, fraud occurs in organizations of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances. In fact, fraud may be a more significant problem for small organizations. In the 2002 survey of its members conducted by the Association of Certified Fraud Examiners (ACFE), the median loss per fraud occurrence reported from businesses with 100 or fewer employees was \$127,500, a proportionately larger loss than the \$97,000 median loss in organizations with 10,000 or more employees.

Whereas the highly publicized frauds at large public organizations like Enron, WorldCom, and HealthSouth involved fraudulent financial reporting, for small organizations, one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), particularly fraudulent cash disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and there are inadequate controls to prevent or detect the fraud. To address this risk, we recommend that Lakeshore Coordinating Council (the Council) perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Council's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Council, its environment, and its processes. The fraud risk assessment process should consider the Council's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- Which individuals in the Council have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate individuals with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of individuals with access to assets susceptible to misappropriation.

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- What assets of the Council are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious individuals or vendors and cashing them for personal use. Inventory or other assets can be stolen through sales to fictitious customers. Assets can also be stolen by unauthorized trading in securities.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running it through as an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.
- What factors might indicate that the Council has a culture or environment that would enable management or individuals to rationalize committing fraud?

Once areas vulnerable to fraud have been identified, a review of the Council's systems, procedures, and existing controls relating to the identified areas should be conducted. The Council should consider what additional controls need to be implemented to reduce the risk of fraud. There are two basic types of controls—those that are designed to address specific types of fraud, and those that are more general in nature. General controls that reduce an individual's ability to commit fraud without detection include the following:

- Requiring Periodic Job Rotation and Mandatory Vacations. When an employee stays in the same position for a long period and has few absences, an opportunity exists for that employee to design and commit fraud schemes. Requiring key individuals to rotate jobs periodically or to transfer to different job functions is one way to address this fraud risk. Requiring all individuals to take an annual vacation, during which time others perform their job functions, also makes it more difficult for an employee who is committing fraud to continue concealing the fraud scheme.
- Preparing and Reviewing Monthly Financial Statements in a Timely Fashion. As previously mentioned, many frauds create accounting anomalies. Thus, one way to detect fraud on a timely basis is to review monthly financial statements and investigate unusual variances. If possible, these statements should include budget, prior period, and year-to-date amounts to help identify variances. Performing the review and investigation on a timely basis helps minimize the extent of potential fraud.

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- Implementing an Employee Hotline. Tips and complaints from fellow employees or vendors have enabled many organizations to discover occurrences of fraud. Anonymous telephone hotlines allow honest employees and vendors who may fear retaliation from fraud perpetrators to report unethical behavior without risking exposure.

Examples of controls to prevent or detect specific types of fraud include the following:

- Independent Checks of Work Performed. Independent checks test another employee's work, such as by having a second employee re-perform or test an employee's work.
- Separation of Duties. Separation of duties is one of the most effective controls to prevent or detect misappropriation of assets. When possible, incompatible duties should be performed by different employees. For example, the responsibility for authorizing transactions, recording transactions, and maintaining custody of assets should be assigned to different people in the Council to the extent possible.

When assessing the Council's internal control, the relationship between the nature and extent of fraud controls recommended and the cost of implementing those controls should be considered. For example, instead of trying to prevent fraud, the Council may choose to use more detective controls to ensure that the fraud is identified and corrected in a timely fashion. Because detective controls are performed after the original transaction occurs, they may be easier to implement and more cost effective.

We would be pleased to provide more information about performing a risk assessment or assist management in performing one.

### **Payroll Taxes Payable**

During our review of payroll related liabilities we found that some account balances did not agree with supporting documentation.

We recommend that these accounts be periodically reconciled to payroll tax reports to determine that they are accurately reflected in the financial statements.